

Federal Court



Cour fédérale

Date: 20181113

Docket: T-311-12

Citation: 2018 FC 1143

Ottawa, Ontario, November 13, 2018

PRESENT: Case Management Judge Mireille Tabib

BETWEEN:

BAUER HOCKEY LTD.

**Plaintiff/
Defendant by Counterclaim**

and

**SPORT MASKA INC.
D.B.A. CCM HOCKEY**

**Defendant/
Plaintiff by Counterclaim**

ORDER AND REASONS

[1] In the context of this trademark infringement action, the Plaintiff brings this motion for leave to amend its Fourth-Amended Statement of Claim to add, as a cause of action, the Defendant's act of "causing to be manufactured" ice skates bearing a design confusingly similar to the Plaintiff's Design Trademark.

I. Preliminary Remarks

[2] This would be the Plaintiff's fifth amendment to a Statement of Claim originally filed six years ago, in December 2012. The trial of this matter is set to begin in 18 months, with the last re-attendances on discovery to be held by mid-December 2018 and expert reports in chief to be served at the end of February 2019.

[3] The Plaintiff learned of the facts which form the basis of the new claim at the first round of discoveries, held in March 2015. The Defendant stated at the time its objection to further questions relating to this claim and the basis for that objection. Follow-up discoveries were held in May 2016, after the Plaintiff had amended its Statement of Claim for the third time. The Plaintiff again amended the Statement of Claim in January 2018. Motions to rule on objections raised at the parties' discoveries were heard in early June 2018, at which time the Court upheld the Defendant's objections on issues relating to the new claim on the basis that these issues were not raised in the pleadings. The Court however did reserve the Plaintiff's right to move to amend, but also the corresponding right of the Defendant to oppose this amendment. The Plaintiff waited a further three and a half months before making its current motion to amend to add a claim it had identified, but not pleaded, as early as March 2015.

[4] The amendment is late indeed, and although it raises a novel and possibly arguable claim, any need for extensive discoveries on the issues it raises and any uncertainty as to the scope of these issues has the potential to either delay the trial or cause significant disruption and upheaval

in the Defendant's preparation for trial, either of which are of a nature to cause prejudice to the Defendant that cannot be compensated in costs.

[5] In order for the Plaintiff to be granted leave to amend at this late date, conditions must be imposed to avoid the risk of such prejudice being suffered by the Defendant. A plaintiff cannot simply sit on its rights and decide to assert them at any time of its choosing and expect that the arguable nature of its claim will trump the defendant's right to a fair and expeditious trial.

II. The Proposed Amendment

[6] The essence of the proposed amendment can be found in paragraph 17b of the proposed pleading, which reads as follows:

17b. The Defendant's conduct in Canada in breach of the *Trademarks Act* has included deciding on and/or determining in Canada the design of the above-referenced infringing skates, and directing, arranging or otherwise cause said skates to be manufactured and distributed outside of Canada. These acts performed in Canada by the Defendant constitute infringing conduct in breach of the above-referenced provisions of the *Trademarks Act*, irrespective of where said infringing skates were ultimately made or distributed. Bauer claims relief in the form of a reasonable royalty in respect of all such infringing conduct.

(Emphasis added)

[7] Amendments made in 2014 to the *Trademarks Act*, RSC 1985, c T-13 expressly support a claim for "causing to be manufactured" goods in association with a confusing trademark (s 20(1)(b), implemented by the *Combating Counterfeit Products Act* SC 2014, c 32, s 22). This Court, in *Bauer Hockey Corp. et al v Easton Sports Canada Inc.* 2010 FC 361 at para 190, aff'd

2011 FCA 83 has expressed, albeit in a patent case, the view that the conception and design of goods are elements included in the “making or constructing” of goods, as follows:

[190] If making a skate includes, as I believe it does, the conception of the skate boot, making and adjusting the patterns and the prototypes and having dyes for cutting the pieces, there is no doubt in my mind that Easton was directly involved in the making or constructing of the infringing skates made at Rock Forest.

[8] What makes the Plaintiff’s proposed allegations so novel, however, is that the claim is in respect of goods that were never physically made, in whole or in part, imported, exported or otherwise possessed in Canada. Only the design and direction for manufacture were performed in Canada (the Statement of Claim has always included a claim in respect of goods manufactured abroad in accordance with the same Canadian design, where those goods were subsequently imported, distributed and sold in Canada by the Defendant). In all the cases to which the Plaintiff has referred the Court, the physical goods to which the mark had been associated had, at some point, been present in Canada.

[9] An argument can of course be made that, on the specific wording of s 20(1)(b) of the *Trademarks Act*, infringement by causing goods to be manufactured does not require the physical presence of the associated goods in Canada. However, the Court has considerable doubts as to the chances of success of such an argument, given that it would in effect grant extraterritorial protection for use of Canadian registered trademarks in association with goods that are never physically present, sold or even advertised in Canada. The Plaintiff argues, reasonably, that if “causing to be manufactured” is in and of itself an act of infringement distinct from “manufacturing”, and that infringing act is, as alleged, carried out in Canada, then the act ought

to be actionable in Canada, no matter whether the profits for such infringing acts are ultimately derived from domestic sales or sales in foreign markets (*Doctor Mehran, Produits de Soins Inc. v Laboratoire Du-Var Inc.*, 2006 QCCS 5284).

[10] A conduct may however be actionable without giving rise to a right to monetary relief. And that is where lies the further difficulty of the Plaintiff's case: the evidence on this motion is to the effect that the Defendant itself was never in possession of any goods manufactured for distribution abroad pursuant to its design, that it never owned them, sold them or made profits from them. And therein also lies the potential for prejudice to the Defendant: Although the proposed pleadings define sufficiently clearly what the Defendant is alleged to have done and what the Plaintiff wants the Defendant to be enjoined from doing in Canada, it is impermissibly vague as to the monetary remedy the Plaintiff seeks, and devoid of any allegations of material facts upon which any award of monetary relief might be founded.

[11] The Fourth Amended Statement of Claim currently contains the following allegations and claims in respect of monetary relief for the skates manufactured, sold, imported into Canada, exported from Canada or advertised, and for other acts of passing off and depreciation of goodwill:

1. The Plaintiff claims:

- (i) Damages in the form of a royalty payment that the Plaintiff Bauer Hockey presently establishes would amount to CAD \$2,000,000;
- (j) Or, in the alternative to the Order sought in (i), an accounting of the profits made by the Defendant Sport Maska as a result of its infringing and illegal activities;

23. Based on the information available to date regarding the Defendant Sport Maska's sales since 2010 of the infringing skates described at paragraphs 10, 12, 12b and 12d above, the Plaintiff Bauer Hockey currently estimates the damages it and Old Bauer have suffered to date as a result of such sales to be CAD \$2,000,000, which has been calculated based upon a royalty payment of 10% of what the Plaintiff Bauer Hockey estimates to be the Defendant Sport Maska's net sales since 2010. However, the Plaintiff is currently unaware of the full extent of the Defendant's manufacturing, selling, importing into Canada, exporting from Canada, offering for sale and/or advertising of the infringing skates, and claims in respect of all such infringing and illegal activities.
24. The Plaintiff Bauer Hockey nonetheless reserves its rights to claim the profits illegally made by the Defendant Sport Maska as a result of its infringing and illegal activities.

(Emphasis added)

[12] Adding proposed paragraph 17b to the Statement of Claim as it currently stands results in either a pleading which is, on its face, contradictory and confusing, or a claim for monetary relief that has no reasonable chance of success.

[13] As mentioned, with respect to the alternative claim for profits set out in paragraphs 1(j) and 24, the claim is bound to fail in respect of the new claim for skates caused to be manufactured and distributed abroad, as the evidence on record is to the effect that the Defendant made no profit from the skates. Neither do the proposed pleadings alleged any fact from which, if proven, one might be able to conclude that the Defendant even derived a benefit from the foreign manufacture and sale of skates made by a design it created, even if it also arranged and caused others to manufacture and sell those skates abroad.

[14] With respect to damages, paragraph 1(i) clearly limits them to damages in the form of a royalty payment, estimated to amount to \$2,000,000. Paragraph 23 presents the particulars for the calculation of that same \$2,000,000: 10% of the Defendant's net sales. As mentioned, sales of the skates allegedly designed and directed to be manufactured for distribution abroad are not sales of the Defendant, and as described in that paragraph, royalties would be nonexistent.

[15] What, then, to make of the proposed paragraph 17b, which claims, specifically for the infringing act of causing to be manufactured for distribution outside Canada, "relief in the form of a reasonable royalty in respect of all such infringing conduct"?

[16] If the particulars provided in paragraph 23 are read as applying to paragraph 17b, then the amount must be zero. If the alternative remedy, as set out in paragraph 1(j) is read as applying to paragraph 17b, the amount, again, must be zero. The claim for monetary relief in respect of the infringing act set out in paragraph 17b accordingly has no reasonable prospect of success. The cause of action framed in that paragraph can only support a claim for relief by way of a declaration of infringement, injunction and delivery up of any material which would offend the injunction (presumably for the designs) and punitive damages (claimed in paragraphs 1(b), (f), (g), (h) and (k)).

[17] If, on the other hand, the particulars provided in paragraph 23 are read as not applying to limit or define the claim for monetary relief set out in proposed paragraph 17b, then the factual basis upon which the royalty is to be justified and calculated, and which the plaintiff would have to prove in order to recover, is entirely unknown.

[18] Confronted with this difficulty at the hearing of the motion, the Plaintiff's counsel proposed to amend paragraph 23 by adding the following sentence:

With respect to skates that Defendant Sport Maska caused to be manufactured and distributed outside of Canada through the acts described in paragraphs 17b herein, Bauer claims a reasonable royalty on each skate so manufactured or distributed, the precise amount of which will be the subject of expert evidence.

[19] This proposed amendment would certainly clarify that the factual basis and method of calculating the royalty claimed for the acts set out in paragraph 17b is different from that set out in paragraph 23, and that the royalty would be based on a royalty for each skate, rather than a percentage of the Defendant's net sales. The amendment however falls short of setting out any fact, aside from the number of skates manufactured and distributed outside Canada at the direction or pursuant to arrangements or actions made by the Defendant, which the Plaintiff intends to prove to support the award or calculation of the claimed royalty.

[20] Asked at the hearing if and what other facts the calculation might take into account, counsel for the Plaintiff was unable to provide a definite answer, although he did indicate that the royalty may be calculated as a percentage of the value of each skate. Given that the skates at issue were never owned by the Defendant, it remains unclear what "value" might mean in this context, including in which country, and whether in the hands of a manufacturer, distributor, wholesaler or retailer.

[21] Counsel for the Plaintiff at the hearing would also not exclude the possibility that benefits derived by the Defendant, in the form of increased share prices or dividends resulting from

profits made from sales by any entity that might be related to the Defendant, could be considered in setting the appropriate compensation. Indeed, the Plaintiff relied, at the hearing, on the case of *Airbus Helicopter, SAS v Bell Helicopter Textron Canada Ltée*, 2017 FC 170 as an example of a case where royalties were calculated on the number of infringing items manufactured, even if they had never been sold. However, it is clear from the Court's reasons in that case that the determination of whether it was appropriate to impose a royalty, and the amount thereof, took into account benefits derived by the defendant from using the infringing product as a prototype, for development and other commercialization purposes. It is also noteworthy that in that case, extensive evidence of the parties' competitive positions, and their respective costs of manufacture, development and promotion, was canvassed over a 10 day trial, held for the purpose of evaluating the appropriate compensation for infringing goods that were never sold by the Defendant.

[22] The very suggestion that the allegations made in proposed new paragraph 17b and the amendments to paragraph 23 could be sufficient to properly frame for discovery and evidence at trial the factual issues of the "valuation" of skates made, distributed and perhaps sold in countries other than Canada and what, if any, indirect benefits the Defendant might have obtained from foreign distribution and sales made by others, including perhaps by related entities, is troubling. It illustrates how insufficiently particularized allegations raising novel causes of action can potentially open the door to extensive and far-ranging discoveries and leave the Defendant guessing as to the scope of the case it has to meet, either requiring it to prepare against any imaginable scenario, or vulnerable to being taken by surprise at trial.

[23] Counsel for the Plaintiff argued at the hearing that it should not be required to particularize the amount and basis for the calculation of the royalty claimed, as this is properly a matter of expert evidence which it should not be required to have prepared or divulge at the pleading stage.

[24] Just as the identification of the facts that must be pleaded to form a cause of action often requires the advice of counsel, it may well be that the Plaintiff needs to consult an expert in order to identify the facts relevant to establishing the amount and basis for the award of a reasonable royalty in the circumstances of this case. Pleading material facts in such circumstance no more equates to divulging the expert opinion on which a party may have relied in order to identify these facts than it equates to waiving solicitor-client privilege over the advice received from counsel. Neither the need to consult an expert nor the novelty of the claim asserted can exempt a party from its obligation to set out in its pleadings the facts material to its claim and which it intends to prove at trial.

[25] The Plaintiff's inability or unwillingness to particularise the factual basis it intends to prove in order to justify the award and amount of monetary relief for its new claim is particularly disingenuous in the circumstances of this case. Indeed, at the hearing of the motions to compel in June 2018, where the Plaintiff was seeking to compel production of the number of units sold, net revenues and sales of skates sold outside Canada, the Court specifically raised the issue of how royalties on goods manufactured but not sold might be calculated and the potential intrusiveness and uncertain scope of such enquiries where the claim was not properly framed in pleadings. Counsel at the time did recognize that it was "difficult to figure out exactly how the remedy is

going to look” pleading it needed to know the sales figure before being able to make that determination. Having given itself over three months to consider the issue, the Plaintiff seems to be no further forward in its thinking, and appears to still be intent on having discovery at large before figuring out what it might plead. This manner of proceeding was not acceptable in June 2018 and is still not acceptable.

[26] The amendment will be permitted, if it includes the proposed amendment to paragraph 23 mentioned by counsel at the hearing. The new cause of action framed by these pleadings will further be deemed to be circumscribed to the claim for relief and facts specifically pleaded in these paragraphs, that is, a claim for a reasonable royalty based on the number of skates so caused to be manufactured or distributed. Should the Plaintiff wish to rely, as justification for the award or the calculation of any monetary relief or royalty for this new claim, on any other fact that was not already properly framed in the pleadings and on which discovery has not already been conducted, it must move to amend to provide particulars thereof. The Defendant’s rights to oppose such additional amendments is, of course, reserved, as are its rights to seek any appropriate condition for any further amendments to be made, including bifurcation of quantification issues.

[27] The Plaintiff’s amendments, as originally proposed in its moving motion record, disclosed no reasonable cause of action for monetary relief or were improperly vague, ambiguous and devoid of material facts. The amendments were only saved *in extremis* by a further amendment proposed at the hearing. The Defendant was justified in opposing the Plaintiff’s motion, and should not bear the costs of this opposition.

ORDER

THIS COURT ORDERS that:

1. The Plaintiff is granted leave to serve and file a Fifth Amended Statement of Claim, in the form attached as Schedule “A” of its Notice of Motion, on the terms and conditions set out below.
2. The Fifth Amended Statement of Claim shall include the proposed amendment to paragraph 23 mentioned by counsel at the hearing and set out in paragraph 18 of the reasons for this order.
3. The new cause of action framed by the pleadings will be deemed to be circumscribed to the claim for relief and facts specifically pleaded in these paragraphs, that is, a claim for a reasonable royalty based on the number of skates so caused to be manufactured or distributed.
4. Should the Plaintiff wish to rely, as justification for the award or the calculation of any monetary relief or royalty for this new claim, on any other fact that was not already properly framed in the pleadings and on which discovery has not already been conducted, it must move to amend to provide particulars thereof.
5. Costs of this motion, in the amount of \$3,000.00, are awarded in favour of the Defendant.

"Mireille Tabib"
Prothonotary

FEDERAL COURT
SOLICITORS OF RECORD

DOCKET: T-311-12

STYLE OF CAUSE: BAUER HOCKEY LTD. V SPORT MASKA INC. DBA
CCM HOCKEY

PLACE OF HEARING: OTTAWA, ONTARIO

DATE OF HEARING: OCTOBER 31, 2018

ORDER AND REASONS: TABIB P.

DATED: NOVEMBER 13, 2018

APPEARANCES:

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